



Matatiele Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Executive committee

Mayor

N.S. Nkopane

Executive members

M.M. Mbedla

Portfolio Head: Infrastructure

S.A. Sello

Portfolio Head: Budget and Finance

J. Bosman - Magangana

Portfolio Head: Corporate Services

M.M. Mbobo

Portfolio Head: Community Services

G.M. Letuka

Portfolio Head: Special Programmes Unit

P.M. Stuurman

Portfolio Head: LED

L.M. Ntshayisa

EXCO Member

K.C. Biggs

EXCO Member

Councillors

N. Msuqwana

Speaker

P.A. Mohale

Chief Whip

P.T. Hloele

M. Lebese

N.A. Nkukhu

N.B. Nkomo

C.N. Sithole

M. Kondile

(July 2011 - March 2012)

K.B. Pakkies

C.N. Sambane

S.A. Ndlela

S.T. Stuurman

P.C. Ntsolo

S. Baba

I.N. Maketela

S.M. Mzozoyana

L.D. Shemane

P.Z. Bono

N.N. Ndukwana

T. Dyantyi

C.L. Nxesi

S. Mngenela

M.C. Setenane

E.K. Sephuhle

N.S.N. Paula

S. Mavuka

R.T. Mnika

S.M. Jafta

N.C. Ludidi-Mzonke

S.B. Macuphe

T.S. Maqhashalala

P.G. Muir

T.V. Mongoato

A.M. Saliwavikwa

N. Njobe

N. Ngwanya

W. Potwana

V.M. Mlandu

J.Z. Munyu

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General Information

	V.C. Sigalelana L.E. Stuurman K.B. Makholwa N.E. Kotelana P.T. Motjope (14 June 2012 - current)
Municipal Manager	DCT Nakin
Chief Financial Officer	L Ndzelu (April 2012 - current) D Van Zyl (July 2011 - January 2012)
Grading of local authority	4
Registered office	102 Main Street Matatiele 4730
Physical address	102 Main Street Matatiele 4730
Postal address	P.O. Box 35 Matatiele 4730
Bankers	Nedbank
Auditors	Auditor General
Tel Number	039 737 3135
Fax Number	039 737 3611
Email	manager@matatiele.co.za

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Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 50, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager
31 August 2012

Matatiele Local Municipality

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Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	2	531 557	553 270
Other receivables from non-exchange transactions	3	9 421 937	10 098 490
VAT receivable	4	319 109	7 248 316
Consumer debtors	5	4 774 860	6 269 659
Cash and cash equivalents	6	102 500 208	79 060 846
		117 547 671	103 230 581
Non-Current Assets			
Investment property	7	9 758 255	9 758 255
Property, plant and equipment	8	382 567 716	364 736 995
Intangible assets	9	430 165	434 922
Other financial assets		6 084 739	5 295 774
		398 840 875	380 225 946
Non-current assets held for sale and assets of disposal groups	10	67 300	67 300
Total Assets		516 455 846	483 523 827
Liabilities			
Current Liabilities			
Operating lease liability	11	-	15 787
Finance lease obligation	12	-	18 447
Payables from exchange transactions	13	13 698 962	15 204 686
Consumer deposits	14	241 992	305 624
Unspent conditional grants and receipts	15	22 645 143	19 596 405
Provisions	16	2 256 870	2 463 315
Bank overdraft	6	-	5 923 899
		38 842 967	43 528 163
Non-Current Liabilities			
Retirement benefit obligation	17	5 107 285	2 749 530
Provisions	16	7 228 149	5 807 034
		12 335 434	8 556 564
Total Liabilities		51 178 401	52 084 727
Net Assets		465 277 445	431 439 100
Net Assets			
Revaluation reserve	18	281 409 586	293 303 146
Capital replacement reserve	19	30 124 584	28 274 894
Government grant reserve	20	92 986 732	72 904 150
Housing development fund	21	1 632 319	1 562 515
Accumulated surplus		59 124 224	35 394 395
Total Net Assets		465 277 445	431 439 100

Matatiele Local Municipality

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Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	23	13 234 519	12 775 595
Service charges	24	38 261 621	31 580 756
Profit on sale of asset		293 195	-
Rental of facilities and equipment		482 505	499 200
Public contributions and donations		-	15 000
Fines		1 650 860	966 187
Licences and permits		1 897 270	1 059 482
Government grants & subsidies	25	125 711 154	135 377 298
Other income	26	794 227	1 397 320
Interest earned - external investment	27	6 926 590	6 363 551
Total Revenue		189 251 941	190 034 389
Expenditure			
Employee related costs	28	(46 428 750)	(37 770 573)
Remuneration of councillors	29	(13 275 611)	(11 345 842)
Depreciation and amortisation	30	(15 788 492)	(14 709 303)
Finance costs	31	(563 505)	(1 250 057)
Debt impairment	32	(2 903 081)	(1 394 822)
Loss on disposal of assets		(2 445 181)	(114 940)
Repairs and maintenance		(9 437 808)	(8 417 981)
Bulk purchases	33	(21 898 140)	(16 078 220)
Contracted services		(9 360 429)	(5 710 644)
Grants and subsidies paid	34	(8 467 660)	(35 504 453)
General expenses	35	(23 699 025)	(15 574 663)
Total Expenditure		(154 267 682)	(147 871 498)
Surplus for the year		34 984 259	42 162 891

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Statement of Changes in Net Assets

	Revaluation reserve	Capital replacement reserve	Government grant reserve	Housing development fund	Total reserves	Accumulated surplus	Total net assets
Figures in Rand							
Opening balance as previously reported	305 161 866	19 854 941	50 379 073	1 496 434	376 892 314	16 744 066	393 636 380
Adjustments							
Correction of errors	-	-	-	-	-	(6 003 023)	(6 003 023)
Balance at 01 July 2010 as restated	305 161 866	19 854 941	50 379 073	1 496 434	376 892 314	10 741 043	387 633 357
Changes in net assets							
Surplus for the year	-	-	-	-	-	42 162 891	42 162 891
Write back of depreciation due to offsetting of accumulated surplus	(11 858 720)	20 184	(2 512 227)	-	(14 350 763)	14 389 403	38 640
Transfer to Housing Development Fund	-	-	-	6 480	6 480	(6 480)	-
Property, Plant and Equipment purchased	-	(8 337 400)	-	-	(8 337 400)	8 337 400	-
Transfer to Capital Replacement Reserve	-	16 737 296	-	-	16 737 296	(16 737 296)	-
Grants utilised to obtain Property, Plant and Equipment	-	-	25 755 376	-	25 755 376	(25 755 376)	-
Interest received/(paid)	-	-	-	59 601	59 601	-	59 601
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	-	(127)	(489 940)	-	(490 067)	4 059	(486 008)
Correction of error	-	-	-	-	-	2 030 619	2 030 619
	-	-	(228 132)	-	(228 132)	228 132	-
Total changes	(11 858 720)	8 419 953	22 525 077	66 081	19 152 391	24 653 352	43 805 743
Balance at 01 July 2011	293 303 146	28 274 894	72 904 150	1 562 515	396 044 705	35 319 441	431 364 146
Changes in net assets							
Write-off of Property, Plant and Equipment	-	-	(1 134 282)	-	(1 134 282)	-	(1 134 282)
Interest received	-	-	-	63 322	63 322	-	63 322
Transfer to housing development fund	-	-	-	6 482	6 482	(6 482)	-
Net income (losses) recognised directly in net assets	-	-	(1 134 282)	69 804	(1 064 478)	(6 482)	(1 070 960)
Surplus for the year	-	-	-	-	-	34 984 259	34 984 259
Total recognised income and expenses for the year	-	-	(1 134 282)	69 804	(1 064 478)	34 977 777	33 913 299
Purchase of Property, Plant and Equipment through reserves	-	(10 565 167)	25 932 353	-	15 367 186	(15 367 186)	-
Contribution to Capital Replacement Reserve	-	12 414 857	-	-	12 414 857	(12 414 857)	-
Write back of depreciation due to offsetting of accumulated surplus	(11 893 560)	-	-	-	(11 893 560)	11 893 560	-
Write back of accumulated depreciation due to offsetting of accumulated surplus	-	-	(4 715 489)	-	(4 715 489)	4 715 489	-
Total changes	(11 893 560)	1 849 690	20 082 582	69 804	10 108 516	23 804 783	33 913 299
Balance at 30 June 2012	281 409 586	30 124 584	92 986 732	1 632 319	406 153 221	59 124 224	465 277 445
Note(s)	18	19	20	21			

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Annual Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		46 233 890	34 561 550
Grants		125 711 154	135 377 298
Interest received		6 926 590	6 363 551
Fine receipts		1 650 860	966 187
		<u>180 522 494</u>	<u>177 268 586</u>
Payments			
Employee costs		(59 704 361)	(49 116 416)
Suppliers		(46 496 883)	(45 425 493)
Interest paid		(563 505)	(1 250 057)
Other payments		(8 467 660)	(35 504 454)
		<u>(115 232 409)</u>	<u>(131 296 420)</u>
Net cash flows from operating activities	37	<u>65 290 085</u>	<u>45 972 166</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(36 455 169)	(35 616 369)
Proceeds from sale of property, plant and equipment	8	3 044 753	375 000
Purchase of other intangible assets	9	(42 349)	-
Proceeds from sale of financial assets		(788 965)	-
Purchase of financial assets		-	(684 925)
Net cash flows from investing activities		<u>(35 892 590)</u>	<u>(35 926 294)</u>
Cash flows from financing activities			
Loans repaid		-	(135 461)
Repayment of operating lease liability		(15 787)	-
Finance lease payments		(18 447)	-
Net cash flows from financing activities		<u>(34 234)</u>	<u>(135 461)</u>
Net increase/(decrease) in cash and cash equivalents		29 363 261	9 910 411
Cash and cash equivalents at the beginning of the year		73 136 947	63 226 536
Cash and cash equivalents at the end of the year	6	<u>102 500 208</u>	<u>73 136 947</u>

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.2 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.2 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.3 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

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Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Matatiele Local Municipality

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Accounting Policies

1.5 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Matatiele Local Municipality

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Accounting Policies

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.10 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.11 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.13 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.14 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.18 Irregular expenditure (continued)

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Inventories		
Consumable stores	528 888	550 601
Medallions - at cost	2 669	2 669
	531 557	553 270

Inventories are held for own use with the result that no write downs of inventory to net realisable value were required.

3. Other receivables from non-exchange transactions

S Zuko Consulting	-	266 687
Sundry Debtors Control	221 476	53 005
Debtors Sundry	10 092 771	10 097 813
Housing Debtors	19 623	20 124
Health Subsidy Control	505 967	965 701
Debtors Interest	207 022	70 618
Pre-paid Expenses	46 630	629 961
Less: Provision for Impairment	(1 671 552)	(2 005 419)
	9 421 937	10 098 490

Other receivables from non-exchange transactions pledged as security

Health Subsidy Control relates to expenses incurred by the municipality on an agency basis on behalf of the Provincial Government , a sundry debtor is raised which will be recovered.

Sundry Debtors Control relates to monthly cellphone account of Councillors for the month of June 2012 which was deducted from their salary in July 2012.

Debtors Sundry relates to Alfred Nzo District Municipality and Sisonke District Municipality for transfer of water services.

Pre-paid Expenses relates to expenditure incurred for a conferences and meetings held in July 2012.

S Zuko is a creditor who was erroneously paid twice. This amount has since been recovered.

The management of the municipality is of the opinion that the carrying value of Trade Receivables from Non-Exchange Transactions approximate their fair values.

4. VAT receivable

VAT	319 109	7 248 316
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VAT is payable on the payments basis. Once payment is received from debtors, VAT is paid over to SARS.

5. Consumer debtors

Gross balances

Rates	15 970 614	13 917 413
Electricity	3 008 089	5 043 515
Refuse	6 676 404	4 952 030
	25 655 107	23 912 958

Less: Provision for debt impairment

Rates	(14 487 588)	(13 321 658)
Electricity	(995 970)	(283 717)
Refuse	(5 396 689)	(4 037 924)
	(20 880 247)	(17 643 299)

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
5. Consumer debtors (continued)		
Net balance		
Rates	1 483 026	595 755
Electricity	2 012 119	4 759 798
Refuse	1 279 715	914 106
	4 774 860	6 269 659
Rates		
Current (0 -30 days)	48 865	(922)
31 - 60 days	4 907	61 021
61 - 90 days	392 844	4 455
91 - 120 days	348 273	372 297
121 - 150 days	250 463	251 417
> 150 days	15 204 085	13 507 968
Impairment	(14 487 588)	(13 321 658)
Discounting	(278 823)	(278 823)
	1 483 026	595 755
Electricity		
Current (0 -30 days)	1 491 474	(83 887)
31 - 60 days	419 988	1 391 657
61 - 90 days	125 905	512 458
91 - 120 days	541 135	354 852
121 - 150 days	45 981	246 539
> 150 days	484 648	2 722 938
Impairment	(995 970)	(283 717)
Discounting	(101 042)	(101 042)
	2 012 119	4 759 798
Refuse		
Current (0 -30 days)	587 552	(2 334)
31 - 60 days	346 703	500 438
61 - 90 days	256 955	304 983
91 - 120 days	224 203	202 240
121 - 150 days	206 126	182 018
> 150 days	5 154 075	3 863 895
Impairment	(5 396 689)	(4 037 924)
Discounting	(99 210)	(99 210)
	1 279 715	914 106
Reconciliation of debt impairment provision		
Balance at beginning of the year	(17 643 299)	(14 329 452)
Contributions to provision	(3 236 948)	(3 313 847)
	(20 880 247)	(17 643 299)

Consumers debtors are billed monthly, at latest by the end of the month. No interest is charged on trade receivables until the 30th of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

The municipality receives applications for services that it processes. Deposits are required to be paid for all electrical accounts opened. There are no consumers who represent more than 5% of the total balance of Consumers Debtors.

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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5. Consumer debtors (continued)

The fair value of consumer debtors was determined after considering the standard terms and conditions of agreement entered into between the municipality and Consumer Debtors as well as the current payment ratios of the municipality's consumers.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 250	1 250
Bank balances	1 980 066	139 264
Short-term deposits	100 518 892	78 920 332
Bank overdraft	-	(5 923 899)
	102 500 208	73 136 947
Current assets	102 500 208	79 060 846
Current liabilities	-	(5 923 899)
	102 500 208	73 136 947

The management of the municipality is of the opinion that the carrying value of bank balances, cash and cash equivalents, recorded at amortised cost in the Annual Financial Statements, approximate their fair values.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	Councillor back pay	30 June 2010	30 June 2012	Councillor back pay	30 June 2010
Nedbank - Matatiele Account number 1011292106	2 051 733	-	-	1 765 742	-	-
Standard Bank - Matatiele Account number 060435224	137 734	139 264	1 972 019	137 734	139 264	1 972 019
First National Bank - Matatiele Account number 62108495817	76 590	(182 214)	1 036 864	76 590	(5 923 899)	(1 409 824)
Total	2 266 057	(42 950)	3 008 883	1 980 066	(5 784 635)	562 195

7. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	9 758 255	-	9 758 255	9 758 255	-	9 758 255

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	9 758 255	9 758 255

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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7. Investment property (continued)

Investment Property Information

All of the municipality's investment properties are held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

A register of Investment property is available at the municipal offices.

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	25 073 843	(1 196 142)	23 877 701	24 544 272	(575 861)	23 968 411
Infrastructure	290 438 396	(26 851 834)	263 586 562	261 164 435	(17 092 468)	244 071 967
Community	90 702 197	(6 830 304)	83 871 893	87 808 155	(3 408 292)	84 399 863
Other property, plant and equipment	19 104 296	(7 872 736)	11 231 560	18 391 454	(6 094 700)	12 296 754
Total	425 318 732	(42 751 016)	382 567 716	391 908 316	(27 171 321)	364 736 995

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Capital under construction	Disposals	Depreciation	Total
Land	23 968 411	179 300	350 271	-	(620 281)	23 877 701
Infrastructure	244 071 967	30 493 974	1 510 765	(2 730 778)	(9 759 366)	263 586 562
Community	84 399 863	691 517	2 202 525	-	(3 422 012)	83 871 893
Other property, plant and equipment	12 296 754	1 026 817	-	(313 975)	(1 778 036)	11 231 560
	364 736 995	32 391 608	4 063 561	(3 044 753)	(15 579 695)	382 567 716

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Capital under construction additions	Disposals	Correction of error	Depreciation	Total
Land	22 913 228	1 619 422	-	-	9 871	(574 110)	23 968 411
Infrastructure	231 077 255	23 451 995	-	-	(1 180 364)	(9 276 919)	244 071 967
Community	83 460 072	3 943 642	394 462	-	-	(3 398 313)	84 399 863
Other property, plant and equipment	7 852 132	6 601 288	-	(489 940)	(131 812)	(1 534 914)	12 296 754
	345 302 687	35 616 347	394 462	(489 940)	(1 302 305)	(14 784 256)	364 736 995

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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9. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	502 516	(72 351)	430 165	460 167	(25 245)	434 922

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	434 922	42 349	(47 106)	430 165

Reconciliation of intangible assets - 2011

	Opening balance	Correction of error	Total
Computer software	2 144 868	(1 709 946)	434 922

Other information

All of the municipality's intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

10. Non-current assets held for sale

The municipality has, in total, R67 300 worth of assets which are classified as held-for-sale.

11. Operating lease liability

Operating lease liabilities	-	15 787
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Operating leases relate to property, plant and equipment with lease terms not longer than 3 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the leased period.

Current liabilities

At amortised cost	-	15 787
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Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Finance lease obligation		
Minimum lease payments due		
- within one year	-	18 447
Present value of minimum lease payments due		
- within one year	-	18 447

Finance leases relate to property, plant and equipment with lease terms not more than 3 years (2011: 3 years). The effective interest rate on Finance Leases was 10.5% (2011: 10,5%).

The municipality has the option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under finance leases are secured by the lessors' title to the leased assets.

The finance leases ended in the current year and no additional finance leases were taken.

13. Payables from exchange transactions

Trade payables	6 777 189	2 755 327
Leave provision	2 473 554	2 021 422
Income received in advance	18 510	409 648
Payments received in advance	2 759 934	8 962 702
Other creditors	1 669 775	1 055 587
	13 698 962	15 204 686

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Income received in advance is due to payments received for hall hire and prepaid electricity.

Payments received in advance are consumer debtors' accounts paid in advance. A correction of error has been passed as a result of overcharging of a consumer, Tayler Bequest Hospital, for the amount of R7 547 589 in the prior year.

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

14. Consumer deposits

Electricity	241 992	305 624
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer deposits approximate their fair values. The fair value of Consumer deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

Matatiele Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
National government grants	11 282 602	6 153 009
Provincial government grants	4 020 368	6 375 108
Local government grants	168 929	835 987
Other spheres of government	7 173 244	6 232 301
	22 645 143	19 596 405

The nature and extent of government grants recognised in the annual financial statements are an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attached to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	5 334 162	509 642	5 843 804
Provision for long service award	896 584	487 761	1 384 345
Performance bonus	1 038 993	48 716	1 087 709
Bonus	791 594	130 631	922 225
Post retirement medical aid benefits	209 016	37 920	246 936
	8 270 349	1 214 670	9 485 019

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Rehabilitation of land-fill site	4 868 966	465 196	5 334 162
Provision for long service award	883 362	13 222	896 584
Performance bonus	410 071	628 922	1 038 993
Bonus	478 728	312 866	791 594
Post retirement medical aid benefits	181 536	27 480	209 016
	6 822 663	1 447 686	8 270 349

Non-current liabilities	7 228 149	5 807 034
Current liabilities	2 256 870	2 463 315
	9 485 019	8 270 349

Bonus is calculated on a 13th cheque attributable to all staff.

Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5 years and every 5 years thereafter of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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17. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Post-Employment Health Care Benefit Liability	(5 354 221)	(2 958 546)
Transfer to current provisions	246 936	209 016
Net liability	(5 107 285)	(2 749 530)

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Chanan Weiss of ARCH Actuarial Consulting, Fellow of the faculty of Actuaries and Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 958 546	3 122 956
Liabilities extinguished on settlements	(209 016)	(181 536)
Net expense recognised in the statement of financial performance	2 604 691	17 126
Closing balance	5 354 221	2 958 546

Net expense recognised in the statement of financial performance

Current service cost	156 068	156 541
Interest cost	232 007	279 760
Actuarial (gains)/losses	2 216 616	(419 175)
Total included in employee related costs	2 604 691	17 126

Key assumptions used

Assumptions used at the reporting date:

Average retirement age - females	63	63
Average retirement age - males	63	63
Discount rates used	7,73 %	8,12 %
Health care cost inflation rate	7,09 %	7,20 %
Net effective discount rate	0,60 %	1,82 %

18. Revaluation reserve

Opening balance	293 303 146	305 161 866
Change during the year	(11 893 560)	(11 858 720)
	281 409 586	293 303 146

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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18. Revaluation reserve (continued)

The revaluation reserve arise on the revaluation of land and buildings. Where revalued land and buildings are sold, the portion of the revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to accumulated surplus. Distribution from the revaluation reserve can be made where they are in accordance with the requirements of the municipality's accounting policy and relevant case law. The payment of cash distribution out of the reserve is restricted by the terms of the municipality's accounting policy. These restrictions do not apply to any amounts transferred to accumulated surplus. The council do not currently intend to make any distributions from the revaluation reserve.

19. Capital replacement reserve

The capital replacement reserve is a reserve to finance future capital expenditure and is fully invested in ring-fenced financial instrument investments.

Opening balance	28 274 894	19 854 941
Change during the year	1 849 690	8 419 953
	30 124 584	28 274 894

20. Government grant reserve

The government grant reserve equals the carrying value of the items of property, plant and equipment financed from government grants. The government grants reserve ensure consumer equity and is not backed by cash.

Opening balance	72 904 150	50 379 073
Change during the year	20 082 582	22 753 209
Correction of error	-	(228 132)
	92 986 732	72 904 150

21. Housing development fund

The housing development fund has its origin from loans extinguished by government on 1 April 1998 and the net of housing transactions appropriated to the fund thereafter. No separate unappropriated surplus account for housing transactions was kept.

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sales of houses. Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Opening balance	1 562 515	1 496 434
Changes during the year	69 804	66 081
	1 632 319	1 562 515

22. Revenue

Property rates	13 234 519	12 775 595
Service charges	38 261 621	31 580 756
Profit on sale	293 195	-
Rental of facilities & equipment	482 505	499 200
Public contributions and donations	-	15 000
Fines	1 650 860	966 187
Licences and permits	1 897 270	1 059 482
Government grants & subsidies	125 711 154	135 377 298
	181 531 124	182 273 518

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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22. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	38 261 621	31 580 756
Profit on sale	293 195	-
Rental of facilities & equipment	482 505	499 200
Licences and permits	1 897 270	1 059 482
	40 934 591	33 139 438

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue:

Property rates	13 234 519	12 775 595
Public contributions and donations	-	15 000
Fines	1 650 860	966 187

Transfer revenue:

Government grant and subsidies	125 711 154	135 377 298
	140 596 533	149 134 080

23. Property rates

Rates received

Commercial	12 504 807	6 109 131
Residential	6 411 752	4 437 214
Agricultural	1 452 217	437 777
Vacant land	479 940	4 562 422
Exempted properties	(6 109 560)	(1 540 380)
Previous year interim rates	(340 706)	44 294
Less: Corrections	(1 163 931)	(1 274 864)
	13 234 519	12 775 594

Assessment rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

24. Service charges

Sale of electricity	32 488 968	25 838 171
Refuse removal	5 772 653	5 742 585
	38 261 621	31 580 756

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. Government grants and subsidies		
Equitable share	92 449 000	71 817 301
National: FMG grant	1 450 000	1 200 000
National: MIG grant	24 994 125	20 314 611
National: MSIG grant	591 564	750 000
National: Department of Mineral and Energy	-	30 004 135
Provincial: DHLGTA	-	105 025
Provincial health subsidies	-	1 407 028
Local Government - Local municipalities	455 692	1 962 467
Other government	1 637 979	1 863 607
Provincial: Treasury	1 930 078	4 565 228
Provincial: DEAT	1 441 076	1 387 896
FIFA World Cup	100 000	-
Conference centre and lodges	554 387	-
Small town & rural village grant	107 253	-
	125 711 154	135 377 298

Equitable Share

In terms of the constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund operations.

All registered indigents on grid electricity, receive 50kWh free electricity per month. For non-grid consumers, R48 per month is contributed towards the maintenance of solar panels.

National: MIG funds

Balance unspent at beginning of year	6 153 009	5 562 619
Current-year receipts	30 123 718	20 905 000
Conditions met - transferred to revenue	(24 994 125)	(20 314 610)
	11 282 602	6 153 009

Conditions still to be met - remain liabilities (see note 15).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). No funds have been withheld.

Provincial government

Balance unspent at beginning of year	6 375 108	10 030 887
Interest allocated	484 360	1 464 807
Conditions met - transferred to revenue	(2 839 100)	(5 120 586)
	4 020 368	6 375 108

Conditions still to be met - remain liabilities (see note 15).

When demarcated from the province of KwaZulu Natal to the province of the Eastern Cape, the municipality received an establishment grant. This grant was used to cater for the bigger demarcated area and is spent in accordance with a business plan. The Unspent grant for this amounts to R4 405 069 (2011: R5 799 871).

The remainder of the provincial grant are funds used to fence the nature reserve. The Unspent grant amounts to R575 237 (2011: R575 237)

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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25. Government grants and subsidies (continued)

Local government

Balance unspent at beginning of year	835 987	2 427 952
Current-year receipts	350 000	1 700 000
Conditions met - transferred to revenue	(1 017 058)	(3 291 965)
	168 929	835 987

Conditions still to be met - remain liabilities (see note 15).

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and to contribute in the development of the Integrated Development Plan and Community Based Plans processes.

Other grants

Balance unspent at beginning of year	6 232 301	1 000 802
Current-year receipts	3 216 030	6 482 574
Conditions met - transferred to revenue	(2 275 087)	(1 251 075)
	7 173 244	6 232 301

Conditions still to be met - remain liabilities (see note 15).

Grants received for Local Economic Development Projects and Extended Public Works Programme incentive.

26. Other income

Nature reserve chalets	13 833	14 616
Telephone private calls	3 178	3 207
Electricity connections	86 098	116 803
Service connection	44 258	70 233
Sundry services	49 449	640 291
Wood sales	746	263
Pool fees	11 434	17 470
Nature reserve annual licence	6 842	10 307
Nature reserve daily fishing	7 232	9 912
Rates certificates	3 824	3 572
Building exemption certificates	3 351	4 400
Building plans	117 961	136 681
Lost books	212	558
Photo copies	697	527
Rental revenue from other facilities	3 281	193
Pound fees	207 525	159 945
Cemetery fees	68 215	39 015
Housing	-	32 227
Tender documents	75 600	136 249
Nature reserve income	79 450	851
Driveway hardening	11 041	-
	794 227	1 397 320

The amounts disclosed above for other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
27. Investment revenue		
Interest revenue		
Available-for-sale financial assets	5 257 442	4 254 880
Loans and receivables	1 669 148	2 108 671
	6 926 590	6 363 551

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
28. Employee related costs		
Basic	33 281 191	27 513 668
Bonus	1 480 652	1 790 863
Medical aid - company contributions	839 800	685 383
UIF	324 337	308 956
SDL	12 447	17 670
Leave pay provision charge	635 642	537 820
Defined benefit plan expense	2 883 436	(92 809)
Post-employment benefits - Pension - Defined contribution plan	3 643 605	3 819 409
Overtime payments	1 162 544	1 297 495
Acting allowances	27 500	44 217
Car allowance	1 699 457	1 605 516
Housing benefits and allowances	438 139	242 385
	46 428 750	37 770 573

Remuneration of Municipal Manager

Annual Remuneration	747 622	691 560
Car Allowance	230 520	230 520
	978 142	922 080

Remuneration of Chief Financial Officer

DC Van Zyl	-	-
Annual Remuneration	312 030	514 665
Car Allowance	95 576	132 307
Contributions to UIF, Medical and Pension Funds	98 319	170 618
	-	-
K Mehlomakulu	-	-
Acting allowance	33 000	-
	-	-
L Ndzelu	-	-
Annual remuneration	157 500	-
Car Allowance	52 500	-
	748 925	817 590

Mr D.C. Van Zyl was the Chief Financial Officer from July 2011 to January 2012 in the current year.

Mr K Mehlomakulu was the Acting Chief Financial Officer from February 2012 to March 2012 in the current year.

A new Chief Financial Officer, Mr L Ndzelu, was appointed from April 2012.

Remuneration of Corporate Services Manager

Annual Remuneration	597 529	599 217
Car Allowance	192 000	192 000
	789 529	791 217

Remuneration of Community Services Manager

Annual Remuneration	452 262	419 146
Car Allowance	150 000	150 000
Contributions to UIF, Medical and Pension Funds	88 191	81 734
	690 453	650 880

Matatiele Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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28. Employee related costs (continued)

Remuneration of the EDP Manager

Annual Remuneration	-	469 459
Acting Allowance	231 618	-
Car Allowance	-	124 032
Contributions to UIF, Medical and Pension Funds	-	88 011
	231 618	681 502

The general manager EDP for the previous year, Mrs M.E. Nombungu, vacated her position with the effect of 11 May 2011. No new EDP manager was appointed in the current year. GR Tobia has been the Acting EDP manager in the current year.

Remuneration of the Infrastructure Manager

Annual Remuneration	621 376	562 000
Car Allowance	166 832	198 000
	788 208	760 000

Staff leave benefits

Municipal manager	137 292	103 926
Chief financial officer	28 930	17 660
Corporate services manager	94 340	82 375
Community services manager	47 365	51 034
EDP manager	40 455	19 355
Infrastructure manager	39 149	42 950
	387 531	317 300

29. Remuneration of councillors

Mayor	414 952	368 358
Executive Committee	2 049 982	1 894 046
Speaker	369 403	303 865
Councillors	6 775 111	3 916 076
Company contributions to UIF, medical aid and pension fund	274 948	1 554 864
Sundry allowances (Cellular phones, housing and vehicles)	3 391 215	3 308 633
	13 275 611	11 345 842

In-kind benefits

The Mayor, the Speaker, the Chief Whip and four Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has a driver/bodyguard.

30. Depreciation and amortisation

Property, plant and equipment	15 788 492	14 709 303
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Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
31. Interest paid		
Finance leases	-	1 912
Bank	212	218
Amortisation of held to maturity liabilities	-	16 298
Late payment of tax	52 855	-
Other interest paid	510 438	1 231 629
	563 505	1 250 057
32. Debt impairment		
Contributions to debt impairment provision	2 903 081	1 394 822
33. Bulk purchases		
Electricity	21 898 140	16 078 220
Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to consumers. Electricity is purchased from Eskom. The municipality incurred electricity line losses of 8.25% (2011: 30%) in the current year.		
Water is supplied directly to residents and businesses by the district municipality.		
34. Grants and subsidies paid		
Grants paid for projects and IDP		
Landfill Site management	420 790	1 009 896
New IDP 2007-10	43 120	584 117
Nature Reserve Fencing	267 234	67 300
NER Elec Upgrade	-	27 192 982
Election: Road Upgrade	-	1 329 498
IDP Support	266 257	50 132
Khutelani Project	744 488	374 637
Mokhosi Milling Project	17 816	7 583
Small town and rural village	107 253	-
Land audit	121 384	-
EPWP incentive	938 345	-
	2 926 687	30 616 145

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
34. Grants and subsidies paid (continued)		
Other grants and subsidies		
FBS Electricity	1 178 721	1 104 418
FBS Electricity previous year	-	105 159
PMS - Alfred Nzo	171 747	-
FBS Refuse	237 102	789
FBS Refuse previous year	-	495 928
FIFA world cup	100 000	-
Thina sinako	554 387	-
Office Rental	414 005	391 904
Valuation	84 451	110 088
MDF Asset Register	13 662	72 696
Capacity building	129 552	52 024
MSIG	591 564	613 705
Organisational structure	6 165	48 298
Consumer Awareness	-	19 041
PMS	-	18 460
Housing	-	105 025
FMG	1 450 000	1 200 000
Greenest town	216 881	-
Mte Tourism Initiative	392 736	49 247
SDWDP	-	501 526
	5 540 973	4 888 308
	8 467 660	35 504 453

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
35. General expenses		
Advertising	442 048	312 601
Assessment rates & municipal charges	-	51 562
Auditors remuneration	3 483 244	3 060 841
Bank charges	151 561	265 753
Consulting and professional fees	3 443 604	2 887 880
Consumables	466 552	282 283
Donations	-	29 420
Entertainment	5 097	4 179
Hire	81 303	43 109
Insurance	204 719	492 213
Conferences and seminars	86 054	58 322
Lease rentals on operating lease	-	102 839
Motor vehicle expenses	35 339	27 937
Fuel and oil	926 020	666 496
Postage and courier	77 544	72 717
Printing and stationery	954 025	516 636
Project maintenance costs	3 258 440	1 201 829
Subscriptions and membership fees	471 460	66 003
Telephone and fax	1 518 529	1 020 124
Transport and freight	61 492	8 159
Training	2 199 174	695 526
Electricity	536 851	177 886
Uniforms	259 175	211 071
Delegates expenses	3 455 409	1 945 849
Town planning	53 704	72 325
Obsolete stock written off	506	1 302
Public participation	408 623	424 100
Resealing	834 093	715 187
Contribution to bonus provision	179 346	-
Venue expenses	84 834	106 744
Chemicals	20 279	48 407
Farming only	-	5 363
	23 699 025	15 574 663
36. Auditors' remuneration		
Fees	3 483 244	3 060 841

Matatiele Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
37. Cash generated from operations		
Surplus	34 984 259	42 162 891
Adjustments for:		
Depreciation and amortisation	15 788 492	14 709 303
Loss on sale of assets and liabilities	2 445 181	114 938
Unwinding of discount	-	(465 831)
Profit on sale of asset	(293 195)	-
Finance costs	563 505	-
Debt impairment	2 903 081	1 394 822
Movements in retirement benefit assets and liabilities	2 357 755	199 745
Movements in provisions	1 214 670	747 706
Movement in land fill site asset	-	(245 951)
Capital Transfer to Acc Surplus	-	44 640
Contribution to leave	(438 234)	166 385
Stock written off	-	(1 299)
Other non-cash itmes	(719 332)	-
Changes in working capital:		
Inventories	21 713	4 496
Receivables from exchange transactions	-	(6 505 845)
Other receivables from non-exchange transactions	676 553	(6 181 215)
Consumer debtors	(1 408 282)	-
Payables from exchange transactions	(1 505 724)	(1 877 852)
VAT	6 929 207	-
Consumer deposits	(63 632)	(4 295)
Unspent conditional grants and receipts	3 048 738	636 417
Increase/(decrease) in Provisions	(1 214 670)	1 073 111
	65 290 085	45 972 166

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	26 312 216	25 510 670
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This committed expenditure which relates to Infrastructure will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

39. Contingencies

Matatiele Local Municipality vs M.E. Nombungu.

The plaintiff has suing the municipality for the sum of R 364 500. At year-end, the case was still pending.

Matatiele Local Municipality vs T.S. Ntsalla.

The plaintiff is suing the municipality for a sum of R 2 460 407. At year-end the matter is still awaiting a next court date and consequently still pending.

Matatiele Local Municipality vs X. Marubelela

The plaintiff is suing the municipality, which could result in a possible loss of salary back pay to be paid to the applicant from March 2011.

Matatiele Local Municipality vs Mulla

The maximum possible loss from this case is not expected to exceed R 55 000.

Matatiele Local Municipality vs P.G. Hattingh

The plaintiff's claim in the above matter is for R 55 000. The case is still pending.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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40. Related parties

Services rendered to related parties

Rates

Councillors	150 197	54 487
Municipal manager and section 56 personnel	8 818	-

Services

Councillors	22 978	29 771
Municipal manager and section 56 personnel	1 171	-

Interest of related parties

Councillors and/or management of the municipality had no relationship with businesses to management's best knowledge.

Matatiele Local Municipality

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41. Events after the reporting date

In August 2012, due to severe weather conditions, there were major damages to the following four community halls:

1. Ward 10 - Hlomendini Community Hall;
2. Ward 10 - Lunda Community Hall;
3. Ward 10 - Caba Community Hall;
4. Mvenyane Community Hall.

These assets will be tested for impairment and adjusted accordingly for the period 1 July 2012 going forward.

42. Irregular expenditure

Add: Irregular Expenditure - current year	-	2 898 285
Less: Transfer to trade receivables from non-exchange transaction	-	(2 898 285)
	-	-

43. In-kind donations and assistance

The municipality was not engaged in any transaction or event during the year under review involving in-kind donations..

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	466 010	286 410
Amount paid - current year	(466 010)	(286 410)
	-	-

Audit fees

Current year subscription / fee	3 483 244	3 060 841
Amount paid - current year	(3 483 244)	(3 060 841)
	-	-

PAYE and UIF

Current year subscription / fee	8 019 782	6 105 077
Amount paid - current year	(8 019 782)	(6 105 077)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	7 621 068	9 145 471
Amount paid - current year	(7 621 068)	(9 145 471)
	-	-

VAT

VAT receivable	319 109	7 248 316
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

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44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MM Mbobo	3 799	2 271	6 070
NE Kotelane	195	-	195
NS Nkopane	268	-	268
SM Ndukwana	1 171	537	1 708
NE Kotelana	605	22 550	23 155
SM Mzozayana	390	585	975
S Mavuka	390	2 192	2 582
M Saliwavikwa	3 969	62 248	66 217
M Saliwavikwa (One stop service station)	3 671	33 914	37 585
PG Muir	20	1	21
KC Biggs	(465)	-	(465)
VM Mlandu	437	11 848	12 285
M Lebesse	691	2 033	2 724
	15 141	138 179	153 320

Councillor back pay

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
NS Nkopane	-	33 124	33 124
PM Stuurman	-	33 124	33 124
KB Makholwa	-	33 124	33 124
CN Sambane	-	33 124	33 124
PZ Bono	-	33 124	33 124
LE Stuurman	-	33 124	33 124
VC Sigalelana	-	7 474	7 474
NE Kotelana	-	7 166	7 166
LM Ntshayisa	-	7 166	7 166
PG Muir	-	29 768	29 768
KC Biggs	-	22 918	22 918
	-	273 236	273 236

Supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and be reported to Council for noting. The expenses incurred as listed hereunder have been condoned.

Incident

In an emergency	1 023 340	2 649 851
If such goods or services are produced or available from single provider only	425 013	863 696
In any other exceptional case where it is impractical or impossible to follow official procurement processes	4 798 991	8 690 280
When it is impractical to obtain 3 quotation for small purchases less than 2000	-	256 500
	6 247 344	12 460 327

Matatiele Local Municipality

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45. Prior period errors

A creditor was raised at the incorrect value. The creditor and the grants and subsidies paid expense were consequently overstated by R136 295. These balances are now correctly stated.

The Tayler Bequest Hospital has been overcharged for electricity since the 06/07 financial year. This matter has been addressed with the hospital as well as the department. As a result, a creditor has been raised for payments received in advance in the prior year of R7 547 589, and applied retrospectively. The income and interest raised in the prior year has been reversed accordingly. A copy of the agreement as well as supporting calculations for the corrections are available at the municipal offices.

An exercise to evaluate the provision for rehabilitation of the landfill site was done in the current year. The provision was recalculated, and in accordance with GRAP 2, corrections are retrospectively applied. The PPE and Interest expense value for the prior year were accordingly adjusted, along with the provision for the landfill site.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	-	(1 302 305)
Intangible assets	-	149 922
Payables from exchange transactions	-	(6 433 388)
Provision for landfill site	-	(1 018 036)
Opening Accumulated Surplus or Deficit	-	8 603 790

Statement of Financial Performance

Interest paid	-	465 196
Grants and subsidies paid	-	(136 295)
Repairs and maintenance	-	(33 092)
Depreciation	-	(74 954)
Services charges (electricity sales)	-	2 319 709
Interest earned (electricity)	-	60 207

46. Section 32 procurement

Cyas sound event management	-	-
University of Stellenbosch	-	-
Protea consulting	-	-
Nile human capital	-	-
	-	-

During the current year the Municipality chose to utilise the provisions of section 32 (s32) of the Supply Chain Regulations to award tenders to companies using the competitive bidding process of other Municipalities. The above companies were appointed by way of use of this provision. All sections of the provisions were adhered to in the awarding of bids.

47. Fruitless and wasteful expenditure

Opening balance	-	-
Fruitless and wasteful expenditure - current year	167 477	-
	167 477	-

The amount for fruitless and wasteful expenditure was incurred and paid in total in the current year. These were in respect of the following three situations:

- A fine of R100 000 was paid to DEDEA for the construction of an access road on a wet land.
- A penalty of R52 855 was paid to SARS for late payment of third(3rd) party payments.
- A sum of R14 622 was paid to Post master in relation of interest charged on outstanding Telkom account.